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E.O. 12958: N/A
TAGS: ETRD EINV ECON VM
SUBJECT: Vietnam Auto Taxes take their Toll on Manufacturers

Sensitive but Unclassified -- Please protect accordingly.

¶1. (SBU) Summary: Increases in the Special Consumption Tax (SCT), VAT and import duties applied to cars manufactured from kits (CKDs) that went into effect January 1 are already negatively impacting the auto industry in Vietnam. Sales across the industry fell dramatically in January. Also, according to press reports Vietnam's largest automaker, Toyota, cut its workforce by 20 percent on March 1. If the GVN does not reconsider these policies quickly, it may well face additional declines in tax revenues, shrinking employment in the auto sector and eventually shutdown of operations of one or more of the foreign invested auto manufacturers in Vietnam. End summary.

¶2. (U) A May 2003 National Assembly decision to increase the SCT, VAT and import duties on CKD automobiles went into effect January 1. This decision implements a Ministry of Finance proposal to increase the VAT on all vehicles from five to ten percent in 2004; increase the SCT on CKD cars from five percent or less (depending on the model) incrementally up to 80 percent on some models by 2007; and increase the MFN tariff rates on CKDs by five to 10 percent per year until 2008.

¶3. (SBU) In February, representatives of Ford Motor Company told Econ Counselor and Econoff that the dialogue with the GVN has improved since industry representatives met with Deputy Prime Minister (DPM) Vu Khoan in Chicago in December. At the request of the DPM, the Ministry of Industry set up a working group specifically tasked with talking to U.S. auto companies. However, to date, the GVN has not taken any concrete steps toward reversing the tax and tariff increases that went into effect January 1. As a result, vehicle prices have increased and auto sales are down significantly. According to Ford, after rapid expansion in the industry from 2000-2003, sales (of locally produced vehicles) dropped 51 percent in January 2004. Auto companies sold only 1244 CKD cars in Vietnam in January 2004 compared with 2846 in January 2003. Ford noted that the drop may be even more critical though, as these sales figures include cars that were ordered and paid for in December (before the tax/duty hikes went into effect), but not delivered until January. Ford sold only 70 cars in Vietnam in January, compared with 240 in January 2003.

¶4. (SBU) According to press reports, on March 1 Toyota Motor Company cut its workforce in Vietnam almost 20 percent (from 670 to 545) as a direct result of falling sales. Toyota (which controls about a quarter of Vietnam's auto market) is the first auto company to cut employment. While Ford does not currently have plans to lay off workers, it is "keeping the situation under constant review."

¶5. (SBU) On March 4, during a meeting with Mr. Nguyen Thu Do, Deputy Director, Office of the Government, Econ Counselor pointed to the Toyota layoffs as a sign of the need for the GVN to take action on the auto tax issue. Mr. Do said that the working group, which includes representatives of the Ministries of Industry, Finance, Trade and Planning and Investment, was expected to report to the DPM by the end of March.

¶6. (SBU) Comment. Representatives of foreign automakers with production in Vietnam predicted last year that GVN tax/duty policies would have a "disastrous" effect on the industry. Falling sales and employment give credence to this prediction. While automakers have not yet threatened to pull their investments, it remains to be seen how long their businesses can remain viable - particularly as both the SCT and MFN duties are scheduled to increase again next year. If the GVN does not reconsider its auto policy quickly, it will face additional revenue losses, shrinking employment in the auto sector and eventually the shutdown of operations of one or more of the foreign invested auto manufacturers in Vietnam.
Burghardt